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S E C R E T SECTION 01 OF 04 DUBAI 000111

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DEPARTMENT FOR NEA/FO; NEA/ARP FOR BMASILKO

E.O. 12958: DECL: 3/5/2019
TAGS: [TC](#) [PREL](#) [EINV](#) [ECON](#) [EFIN](#)
SUBJECT: LACK OF TRANSPARENCY AND CONFIDENCE COMPOUND DUBAI'S
CONTINUING ECONOMIC SLIDE

REF: A) ABU DHABI 189, B) DUBAI 52, C) DUBAI 40, D) 08 DUBAI 464, E) 08 DUBAI 417, F) 08 ABU DHABI 1221
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CLASSIFIED BY: Paul R. Sutphin, Consul General, Exec, State.
REASON: 1.4 (b), (d)

[1](#). (S/NF) Summary and Comment: Attempts to put a positive spin on the extent of Dubai's financial crisis continue even as some of Dubai's financial elite continue to voice concern over a deep and growing shortfall of cash, credit, and confidence. Sluggish efforts by Dubai officials (and to some extent the UAEG) to limit the damage are being criticized as non-transparent and too limited to restore confidence. Meanwhile, new project cancellations or delays are emerging every day. Dubai's most prominent parastatals continue to move toward consolidation, but these steps, generally viewed as essential to any recovery, are being downplayed by the government to the detriment of any confidence-building impact. Increasing disclosures of investigations and prosecutions of a number of finance and development executives have fueled the rumor mill about what more there is to come. While some clear-eyed analysts have pointed out some positive effects of the crisis on Dubai's over-ambitious, over-leveraged and overheated economy, and noted it is well-poised to be in the forefront of the global recovery, a more forthright acknowledgment of Dubai's difficulties by its government, and clear steps (beyond the recent bond issue, Ref A) to address them in concert with the federal (i.e. Abu Dhabi) government would do much to help. End Summary and Comment.

Scope of Crisis Continues to Emerge

[2](#). (S/NF) While reliable numbers on Dubai's official debt remain elusive, Hamad al Buamim, Director General of the Dubai Chamber of Commerce and Industry (Dubai Chamber), is on record estimating it at USD 120.2 billion, or 57 percent of the UAE's estimated total debt. Dubai Chamber statistics also show a 25 percent decline in total Dubai trade for January 2009 versus January 2008. But it is the real estate sector, the primary engine of wealth in Dubai in recent years, that has been hardest hit, falling hard from its unsustainable, overheated and over-leveraged heights. Jones Lange LaSalle, perhaps the premier real estate consultancy in Dubai (a U.S. company), privately estimates that overall new private and commercial property prices have fallen 50 percent since their July 2008 high, much more sobering than the 25-30 percent decline the local press continues to report.

[3](#). (S/NF) A senior CEO of a Dubai financial parastatal told the CG on March 4 that Dubai, "while illiquid is not insolvent." He estimated that, at a maximum, an injection of USD 50 billion would put Dubai back on solid financial footing (a much cheaper price tag, he noted, than the cost of Dubai failing). Blair Hagkull (protect throughout), managing partner at Jones Lange LaSalle, recently argued to the Consul General that the UAEG's September 2008 injection of USD 14 billion into banks (Ref F) had not succeeded in stimulating lending because too many strings were attached. "Banks won't touch it" because they are worried that conditions attached might lower their creditworthiness. (Note: Hagkull also shared, as an example of

the real estate cash crunch, that many of Jones Lange's major Dubai government parastatal clients, including Sama Dubai, Tatweer, and Nakheel, were overdue in their payments to the firm for work already completed. End Note)

Continuing Transparency Concerns, Lack of Confidence Temper Bond Issuance Boost

14. (S/NF) Dubai's February 22 bond issuance of USD 20 billion (USD 10 billion of which the UAE Central Bank -- aka Abu Dhabi -- will subscribe to) has eased concerns of imminent defaults (Ref A). Nonetheless, confidence in Dubai's financial security remains low. Complaints about Dubai (and the UAEG's) sluggish reaction last year to the emerging crisis and an ongoing lack of transparency continue to undermine efforts to contain the crisis

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and restore a medium of confidence to the Dubai business community.

15. (S/NF) Despite attempts by "Dubai Incorporated" to signal the crisis is in hand and limit negative press, prominent members of the financial community are deeply concerned, and believe more should be done. A Dubai Chamber report calling for greater transparency in addressing the growing crisis, was not distributed publicly due to pressure from Dubai officials, an unprecedented turn of events for the semi-official organization. DG Buamim (protect) told the Consul General that it remains his strong belief that lack of transparency is continuing to fuel injurious speculation and increasingly critical press reports. Henry Azzam, Regional CEO for Deutsche Bank, has publicly criticized the UAEG for being behind the curve and reactive. He has also questioned why, if the UAEG was sincere about not letting Dubai fail, it waited so long to initiate a bailout.

16. (S/NF) Mohammed Gergawi, UAE Minister for Cabinet Affairs (and chief aide to UAE Vice President, Prime Minister and Dubai Ruler Sheikh Mohammed bin Rashid al Maktoum (MbR)) recently told the Consul General Dubai's debt is "under control." Gergawi said he and Dubai Royal Court Director General Mohammed al Shaibani have been tasked by the Ruler to lead Dubai's efforts to cope with the crisis and work to "consolidate and rationalize" Dubai's parastatal companies. He signaled there would be major shake ups, consolidations, and even some prosecutions for financial malfeasance. (Comment: Gergawi is Chairman of Dubai Holdings, largely the personal assets of MbR in many forms. A string of consolidations has indeed been announced (see below), although their scope and depth is being glossed over in the local press. End Comment)

Consolidation: Necessary Medicine - but Potent Enough?

17. (S/NF) It remains conventional wisdom in Dubai's financial sector that mergers and consolidations of competing government companies are necessary components of any escape plan for the current crisis. Dubai Group (a Dubai Holdings investment company) CEO Tom Volpe (protect) continues to urge the Dubai leadership, to use the current downturn to get Dubai "fit." He also anticipates at least one major equity transfer to Abu Dhabi in the coming year. While it is possible Abu Dhabi could purchase a stake in Dubai Holdings or merge Emirates and Etihad airlines - both smart moves for the UAE in the long run - he believes we are most likely to see a merging of the Dubai's two stock exchanges and Abu Dhabi's exchange into a single national exchange which would retain the NASDAQ branding now associated with Bourse Dubai.

18. (S/NF) Volpe described the consolidation of Dubai Holdings (set to include the merger of its two investment arms, Dubai Group and Dubai International Capital (DIC), as well as the merger of real estate companies Mizin, Sama Dubai, and Dubai Properties). Volpe strongly implied the various management chains need to be streamlined. Dubai Holdings needs to focus on (1) meritocracy regarding senior executives; (2) consolidation in-house; and (3) finding financing. Volpe argued this process should happen more quickly and more thoroughly. A number of sources have characterized Mizin and Sama Dubai as failed or shell companies. Sama has reportedly cut its staff from 640 to 40. (Note: Dubai Chamber DG Buamim opined to the Consul General that the recent UAE regulation to limit the ability of companies to lay off Emiratis is a mistake, hurts the ability of the private sector to be competitive, and sends a bad message to expatriate professionals. End Note)

19. (S/NF) Another problem plaguing Dubai Holdings' investment arms are unconfirmed reports that Dubai International Capital's (DIC) prominent and talented Emirati CEO, Samir Al Ansari, is under investigation. Volpe looks set to emerge as CEO of the new "Dubai Holding Investment Group," the result of DIC's merger with Volpe's Dubai Group. Dubai Group Chairman Saud Balawy will

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be named as chair of the new company. According to Volpe, al-Ansari will be Deputy Chairman but his writ will be limited and his longer term future is uncertain.

10. (S/NF) A proposed merger between troubled Dubai lenders AMLAK (EMAAR's mortgage group) and Tamweel (Dubai World's mortgage group) may be in serious trouble, according to a confidential Jones Lange/Linklaters/McKinsey joint study commissioned by the Dubai Government. This study turned up dozens of pages of damaging findings. Most egregious was an estimated half billion dollars paid to AMLAK's seven board members as "premiums." Other allegations include AMLAK violations of Sharia principles, including defaults on four sukook bonds and numerous shenanigans related to the lenders' foray into property development purchases.

Project Cancellations Highlight Transparency and Confidence Gap

11. (S/NF) Hagkull told the CG that more than USD 275 billion in projects are now on hold or cancelled across the UAE. At least 900 developers, from single project shops to the biggest names, have been hard hit by a market with insufficient credit and declining confidence. The latter, he argues, will require clear and massive government intervention to restore. Currently, only an estimated seven banks are providing mortgage lending (down from 24 at the market's peak) in Dubai and loan costs continue to rise. Jones Lange has proposed to Abu Dhabi that a government fund of USD 3 billion be set up there to rescue troubled projects already underway in that Emirate in an attempt to realize any remaining value. The price tag for a similar fund in Dubai, he estimated, would likely be in the range of USD 30-100 billion.

12. (S/NF) Multiple senior sources have pointed to high-profile parastatal Dubai World's Nakheel Property Development Division as being in particularly bad shape, as evidenced by its cancellation of a number of high-profile projects (the third Palm Island, the Trump Tower Hotel and many others). Dubai Holding's Tatweer Group is also in difficult straits; its massive Bawadi strip project is cancelled, although it continues to promote the Tiger Woods Dubai, Universal Studio theme park and Healthcare City development projects. But even much touted Healthcare City is facing challenges. One physician with a large private practice in Healthcare City told us many completed buildings with unleased space may be shuttered, including the building her practice is in, and that there have already been significant staff layoffs -- including large numbers of physicians -- at the highest profile Healthcare City project, the Harvard-associated University Hospital. A large hotel development slated for the project is languishing, lacking

finance.

13. (S/NF) Sama Dubai's two big projects -- the Lagoons and a redevelopment of Dubai's historic Creekfront -- were on indefinite hold, and multiple informed sources have told us the company will "disappear" in the ongoing merger with Mizin and Dubai Properties. (Note: The press is reporting that corruption charges are being brought against the former chief executive and three sales executives (all UAE nationals) at Sama's The Lagoons project. End Note)

14. (S/NF) Comment: Despite the current gloom, a number of clear-eyed local senior business people and analysts have underscored the salutary effects of the current difficulties -- ending speculative property mania and bringing Dubai prices back down to reasonable levels; a very strong impetus to clean up Dubai/UAE's barely-regulated mortgage market; and a "pause" to allow Dubai's overtaxed roads and utilities to "catch up" with the city's growth (public works projects, including the Dubai Metro and new roads, have continued largely unscathed by the crisis). Further, Volpe and others have told us that they remain bullish on Dubai in the medium/long term -- highlighting its region-leading business environment, port and free zone, and

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airport -- as well as its attractive, liberal life style for expatriate talent. In our view, this is all true, but the immediate future looks to be darker before the dawn as secondary effects of the global credit crunch, global trade contraction, and local real estate crash hit the construction, services, retail and tourism sectors over the remainder of the year. A popular question is whether Dubai will be "last in, last out" or "last in, first out" of the global downturn. This remains to be seen, but a more forthright acknowledgment of Dubai's challenges by the government, and clear steps in concert with the federal (read Abu Dhabi) government to address them beyond the current bond issuance -- all as yet largely unseen -- would do much to help. End Comment.
SUTPHIN